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# **Korea, Republic of**

## **HRI Food Service Sector**

### **Market Brief**

### **2002**

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#### **Report Highlights:**

The expansion of incorporated chain restaurant businesses and consumers' ever strong demand for new and international tastes, quick service and quality foods have fueled a rapid growth and diversification of the food service sector in recent years. Koreans spent 41% of their total food budget on eating outside of the home in 2001, an amount which is expected to grow 4-5% annually. The outlook for U.S. exports of a variety of food products in the Korean market is excellent.

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## I. Market Summary

Changes in lifestyle and dietary culture along with remarkable development in socio-economic environment have been interpreted into a rapid growth of food service sector. The monthly average per capita spending on eating outside of the home has continued a steady rise to reach W54,579 won (\$1 = W1,200 won as of July 2002) in 2001, 34% up from W40,810 in 1999. In other words, each Korean spent 41% of his/her food expenditure, or 10.8% of total spending, eating outside of the home in 2001, up from 35.5% and 9.9% respectively in 1999. Although the food expenditure has gradually lost its share in total consumer spending, eating out has consistently increased its share in both food expenditure and total spending over the past decades. The food service sector garnered approximately W35.8 trillion of cash register sales in 2000, 6.5% up from W33.6 trillion in 1999, and is expected to continue to grow at 4-5% annually. The number of food service businesses also has shown a rapid increase, reaching 570,576 in 2000 with total 1.43 million employees. However, 95.3% of businesses in the sector are family-owned mom-and-pop restaurants that hire less than 5 employees. In addition, about 65% of businesses in the sector earn less than W49.5 million of annual sales. The growth of the food service sector in recent years is mainly driven by the expansion of incorporated businesses operating chain restaurants of various formats, including family restaurants, fast food restaurants, bars and institutional feeding restaurants. In addition the sector is diversifying rapidly with a variety of new-to-market cuisines and recipes to meet the consumers' ever strong demand for new and international

tastes, quick service and high quality foods. The outlook for U.S. food exports to this sector is excellent, especially for beef, pork, poultry, seafood, vegetables and fruits (frozen, dehydrated and canned), dairies, alcoholic beverages, sauces and spices, bakery ingredients, prepared foods and organic foods.

### **z Advantages**

1. Changes in life style and dietary culture fuel the development of food service sector.
2. Consumers are looking for new and international tastes, quicker service and quality foods.
3. Incorporated businesses, where the biggest potential for imported products exists, drive the growth of the sector.
4. Domestic food supplies in general are expected to gradually lose price competitiveness against imports.
5. On-going lifting of import barriers and modernization of the distribution channel to the food service sector will improve the market accessibility for imports.
6. Food service operators look for further processed products to reduce labor and overhead costs as well as to secure a stable year round supply.
7. Food service operators are looking for reliable suppliers who have consistent quality and price capability.
8. The emergence of broadband distributors will add efficiency and value to the distribution of imported products.
9. The Korean won has gained strength over U.S. dollar by about 10% during the first half of 2002 and is expected to remain strong as the Korean economy maintains its stable growth in coming years.

### **z Challenges**

1. Food import regulations and practices sometimes result in delays and additional costs, which often get worse when the exporter has little understanding about the market.
2. Export oriented competitors, including China, Australia and New Zealand, have lower prices and run aggressive market development programs.
3. Consumers and press in general have a negative view on the safety and nutritional value of imported foods. Imported foods are often associated with a variety of contaminations (hormone, virus, pathogen, chemicals, metal) and potential food-borne illnesses. With development of mass communications, including cables and Internet, food poisoning outbreaks in foreign countries readily affect the local

consumers view on the safety of imported foods. Korean consumers have a strong belief that locally grown products are nutritionally superior to imports.

4. In many cases U.S. suppliers find it difficult to supply customized product specifications required by Korean buyers mainly because 1) ordered volume is too small to justify the necessary changes in the manufacturing process, or 2) the supplier has little understanding about Korean recipes and may not know how to meet the specifications.

5. Price is the most prominent factor that governs procurement decisions in food service businesses. Many purchasing managers have little understanding about the overall benefit of using high quality, value added products.

## **II. Road Map for Market Entry**

### **A. Entry Strategy**

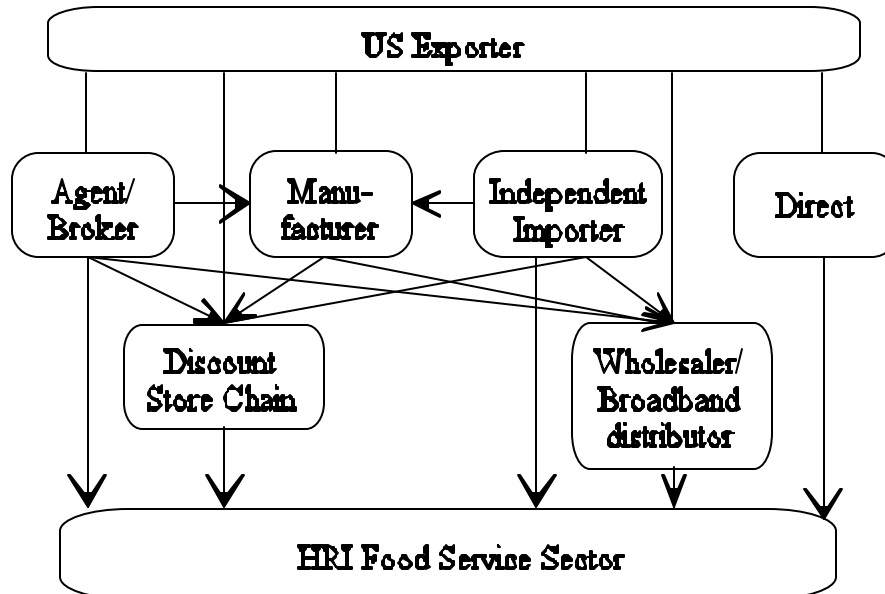
z Any U.S. supplier who seeks to sell his/her products to Korean HRI food service sector first needs to understand the sector's specific needs. For example, most of the dishes currently served in Korea reflect the contemporary dietary culture of Korea and may require different specifications or modifications even for the same food materials used for the same kind of dishes served in the U.S. Consequently, the U.S. supplier may need to modify their existing processing lines for different cutting and packaging, or may have to develop totally new products that can meet the needs of the buyer. Coming to Korea and establishing direct contacts with various people in the sector will be the best way for a new-to-market U.S. supplier to gain comprehensive understanding of the sector's different needs for the products that the supplier is specialized in.

z It is also important for a U.S. supplier to understand the changing tastes of Korean consumers so that the supplier can develop a market for its products before competitors. It is said as a rule of thumb that Japan is five years behind the U.S. in accepting new recipes or dietary culture and Korea is another five years behind Japan, which means Korea will be the market someday for the very same products that are now popular in U.S. Therefore, continuous attention on the development of Korean market will repay a U.S. supplier with a fruitful future sales. For this, U.S. suppliers need to be in close contact not only with Korean companies in the sector but also with various information sources on contemporary Korean dietary culture.

z Once a U.S. exporter is ready to supply the products that meet the sector's needs, aggressive yet targeted trade promotion is recommended. For this, participating in local food shows or organizing independent product seminars targeting menu development managers as well as purchasing managers of the sector could be a cost effective and time saving tactic.

z Because of the variables involved, there is no one best way to enter the Korean market and be successful. However, success is unlikely without local representation and personal visits. What form this local representation takes depends on the exporter, the product and the Korean representative. Unless the U.S. supplier has a specific idea on this, working with an established

importer during the initial stage of market entry is highly recommended. Established importers



**Figure 1 - Distribution Channel for HRI Food Service Sector**

Source: Industry experts interview

are well aware of up-to-date market information and guidance on business practices and trade-related laws, sales contacts in distribution channels and, most of all, are the best source of current information on labeling and inspection requirements for customs clearance. A brief report on the Korean government's inspection process and regulation on newly imported food products can be found in the ATO Seoul web-site ([www.atoseoul.com](http://www.atoseoul.com)). The ATO Seoul also maintains listings of potential importers and provides them to those U.S. suppliers who wish to explore market opportunities in Korea.

## **B. Market Structure - Distribution Channel**

z A brief description of the distribution channel of imported food products for food service sector is shown in Figure 1. Imported food products have been mainly supplied through importers (independent or agent/brokers) and wholesalers to the end users in the sector. However, the sector has seen growth of new routes and players in the channel in recent years, which we see as a step of modernization.

z Food processors and manufacturers have emerged as an important player in the distribution channel in recent years. Korea has a strong food manufacturing sector and the retail market has been the major focus of this sector. At the beginning manufacturers entered the food service market mostly with existing retail products simply contained in food service packages. However, with increasing business with the food service sector, processors and manufacturers are putting more resources into developing food service oriented products. CJ Foods, Daesang, Ottogi, Dongwon and Morningwell are some of

the manufacturers who have made a serious investment in food service products.

z Discount retailers, such as hypermarkets and membership warehouse clubs, also have become an important supplier of fresh and processed food materials especially to family-owned mom-and-pop restaurants since mid 1990's. Currently there are about 150 discount stores nationwide, which is believed to have reached a near saturation considering the size of Korean market. E-mart, a locally owned chain, is leading the market while four international chains, Carrefour, Wal-Mart, Tesco and Costco form the second tier. The development of discount stores was made possible in mid 1990's when the wholesale and retail business was first open to foreign ownership.

z In spite of the rapid growth of modern retail food distribution channel, represented by discount store chains, supermarket chains and convenience store chains of national presence, the distribution channel for the food service sector has yet to see the development of a "broadband distributor" who carries a broad spectrum of product lines, both imports and local, and has a nationwide distribution capability. This means that a food service operator must deal with a large number of distributors or wholesalers to get access to the variety of imported products it needs. At the same time, an importer also must work with many different distributors and/or retailers to gain access to a nationwide distribution. These inefficiencies, together with the inadequate transportation infrastructure, add a great deal to the cost of food products to the food service operator. Fortunately several major food service distributors, including CJ Food System Co. and Foodmerce Co., Ltd., are expected to grow into a broadband distributor in near future, which will bring a big change to the way independent restaurants or small restaurant chains procure foods. These broadband distributors-to-be are already equipped with Internet based procurement(B2B) and ordering(B2B and B2C) systems and nationwide logistics capability. However new-to-market U.S. exporters should not wait and postpone their entry into Korean market until the broadband distributors fully in operation because early movers will take bigger market shares under the increasing competition among suppliers. In addition, broadband distribution channel is something everybody can use when it becomes available.

z A few major food service operators are trying to increase direct imports especially in big volume items such as beef, seafood and frozen vegetables to reduce cost.

z With a growth of incorporated food service businesses(chain restaurants), demand for prepared products (precut, precook, portion-controlled) are on a rapid rise. It is often the case that a processor or manufacturer work closely with a food service operator and co-develop customized products of specific recipe or packaging as required by the operator. The idea of a central kitchen is still new to most chain restaurants but is likely to be widely adopted in the near future.

z A temperature controlled logistics facility (vehicles and warehouses) is common to most food service distributors. Some distributors use a third party logistics service in areas where they do not have any logistics facility yet.

z Korea Tourist Supply Center Inc. (KTSC) used to be the only channel available for hotels and restaurants to procure imported food products up until late 1980's when imports of foods were restricted. Under this closed market situation, KTSC was founded with the government's approval as

an exclusive cooperative importing entity by hotels and restaurants to get access to imported food products. However, the market has opened up for almost everything now and the influence of KTSC is gradually fading although it still remains an important distribution channel for imported food products to hotels outside of Seoul.

z Direct procurement from farms is a common practice for big restaurant chains for a supply of fresh produce. In a contract between a food service buyer and a farm, a certain area of the farm land is contracted to supply all the harvest to the buyer. This way, the buyer can secure a stable supply of a product that potentially has significant seasonal price and volume fluctuations while the farm is guaranteed with fixed income from the land contracted.

z Korea has four very distinctive seasons. The supply of fresh produce is quite limited during the cold winter and rainy early summer, but Korean farmers operate a large number of green houses to grow fresh produce year round.

## C. Sub-Sector Profiles

### 1. Hotel Segment

**Table 1 - Business Statistics of Five Star Hotels in Seoul, 2001**

Year - 2001	Total Sales*	Occupancy rate	F & B Sales*	Number of Rooms	Number of Restaurants
Lotte Hotel	W120,456	75.8%	W47,761	1,318	25
Sheraton Walker Hill	W102,687	75.5%	W51,725	597	15
Grand Inter-Continental	W95,463	72.2%	W48,253	531	17
Hyatt Hotel	W93,122	69.4%	W48,382	602	10
Shilla Hotel	W84,915	71.2%	W46,587	508	10
Seoul Hilton	W72,596	77.7%	W31,949	683	10
Westin Chosun	W69,783	78.4%	W31,328	453	11
Coex Inter-Continental	W58,846	77.9%	W21,246	653	7
Litz-Carlton	W58,433	73.2%	W29,800	401	11
JW Marriot	W58,079	73.6%	W25,955	497	10
Plaza Hotel	W50,763	74.3%	W22,340	478	8
Lotte World Hotel	W50,067	80.0%	W25,186	500	12
Renaissance Hotel	W46,696	67.0%	W21,512	495	12



Swiss Grand Hotel	W38,698	69.7%	W16,536	505	8
Amiga Hotel	W25,697	81.8%	W14,670	200	9
Total	W1,026,310	74.3%	W483,229	8,421	175

\*Unit: Million won (exclusive of tax and service charge)

Source: Monthly Hotel & Restaurant, February 2002

**Table 2 - Business Statistics of Hotel Sector Broke down by Number of Rooms, 2000**

Year - 2000	Less than 50	50-100	100-300	Over 300	Total
Number of Hotels	257	234	111	35	637
Number of Employees	3,892	8,333	12,126	16,253	40,604
Sales Revenue*	129,896	364,494	657,034	1,695,199	2,846,623
Revenue from Room Sales*	78,279	186,938	332,318	615,433	1,212,968
Number of Rooms	9,719	15,215	17,760	27,385	70,079
Number of Guests	5.0 Mil.	7.7 Mil.	8.8 Mil.	9.9 Mil.	31.4 Mil.

\* Unit: Million won

Source: Korea Bureau of Statistics 2002 Data

z There were 637 hotels in Korea at the end of 2000. The hotel segment earned W2.85 trillion won of cash register sales in 2000, up 37% from 1999, which comprises about 54% of total sales of the entire lodging industry. In addition to the hotels, there are about 35,000 motels, inns and bed & breakfast businesses in the lodging industry around the country.

z The hotel sector is expecting a strong growth in room sales in coming years both from business and tourism travelers. Especially, five-working-days-a-week system is scheduled to become a national standard for most Korean workers by 2005, which will allow consumers to spend more time and budget in traveling and leisure activities. Business travelers from overseas are also expected to grow over the years as the Korean economy depends more on international trade. The number of foreign travelers visited Korea reached 4.28 million in 2001, up 9% from 1999.

z A number of new hotels are currently under construction in both luxury and economy segments to meet the strong demand for additional hotel rooms. The economy tier is where the biggest growth of new hotels is expected. Especially, a number of international economy hotel chains have entered the Korean market, some of them jointly ventured with local businesses, in recent years with an ambitious business plans. Best Western has already secured five hotels since its debut in May 2001. Day's Inn Worldwide has announced a plan to build a chain of 50 hotels and 450 motels under its brand in Korea. Ramada Inns will also see the first hotel of its chain soon. Local brands, including Shilla and Joatel, are also moving into a economy hotel chain business. In the luxury tier, Lotte Hotel will add a new hotel of over 100 story high in Busan, which will be recorded as the tallest hotel in the world, in a

few years. Shilla Hotel, Walker Hill Hotel, Ambassador Hotel and Hyatt are also building new hotels. Another notable trend is the emergence of service residence hotels targeting long-term stay travelers. So far three service residence hotels have opened in Seoul and more are under construction. By law, service residence hotels can only accommodate guests who stay more than two weeks but in practice guests stay fewer nights.

z Although the hotel sector has gained significant volume growth over the past decade, it is often said that Korean chains in general are yet to reach the management skills of international standard. That's why most of the five star hotels in Korea are currently operated by international hotel management firms under license contracts.

z The hotel sector has been a major entry channel for quality imported foods and new-to-market international cuisines. The sector, especially the five star hotels, also has been a major target for promotional activities by international food suppliers since the customers to the segment are considered to play an opinion leader's role.

z Food and beverage sales comprises as much as 50% of total business volume of five and four star hotels. Hotel sector is also paying more attention to catering and restaurant businesses outside the hotel. Especially in recent years many major hotels have expanded their food service businesses outside their hotels and opened many restaurants, bakery shops and cafeterias in regular business buildings, mass retail stores, train stations, airport terminals, shopping centers, country clubs and sports complexes.

**Table 3 - Break down of Lodging Industry by Type of Business, 2000**

Year - 2000	Hotels	Inns	Condominium	Dormitory	Others
Number of Business	637	28,386	99	109	7,929

Source: Korea Bureau of Statistics 2002 Data

## 2. Restaurant Segment

**Table 4 - Development of Food Service Industry in Korea**

Year	GNP*	Major Events
1900 - 1950's	N/A	1. Birth of restaurant business (mainly traditional style drinking places with lodging function). 2. Total of 166 restaurants in business in 1945.
1960's	\$100 - \$210	1. Most consumers had very low income and limited food supply. 2. Western foods, mainly wheat flour and dried milk, first introduced to the general public through the food aid from UN and U.S.

1970's	\$248 - \$1,644	<ol style="list-style-type: none"> <li>1. Birth of modern food service industry.</li> <li>2. Big number of family-owned small restaurant businesses opened.</li> <li>3. Improvement in the diet of the general public due to rapid economic development.</li> <li>4. The first franchise restaurant (Nandarang, 1979) and the first international fast food restaurant (Lotteria, 1979) opened.</li> </ol>
1980 - 1985	\$1,592 - \$2,158	<ol style="list-style-type: none"> <li>1. Western diets started to penetrate into the general public.</li> <li>2. Introduction and rapid expansion of franchise restaurants (mainly hamburger, noodle, fried chicken and draft beer chains).</li> <li>3. International restaurant brands entered the market, including Americana(1980), Burger King(1982), Wendy's(1984), KFC(1984), Pizza Hut(1984), Baskin Robbins(1985).</li> </ol>
1986 - 1990	\$2,194 - \$4,197	<ol style="list-style-type: none"> <li>1. Rapid growth of food service industry, especially in fast food restaurant, family restaurant and franchise restaurant segments.</li> <li>2. Introduction of institutional food service business through '86 Asian Games and '88 Olympic Games (Seoul Catering(1989), LG Mart(1989)).</li> <li>3. McDonald's(1986), Denys(1987), Pizza Inn(1988), Cocos(1988), Crown Bakery (1988), Chicago Pizza(1988), Domino Pizza(1989).</li> </ol>
1990's	\$5,883 - \$10,076 **	<ol style="list-style-type: none"> <li>1. Conglomerates allowed to enter the food service business.</li> <li>2. Diversification of food service industry with introduction of new cuisines, such as fusion food, and new formats, such as Karaoke.</li> <li>3. Many international brands rushed into the market, including Hardies(1990), TGIF(1991), Haggendaz(1991), Subway(1992), Ponderosa(1992), Sizzler(1993), Mister Pizza(1993), Sky Lark(1994), Kenny Rogers(1994), Popeye's(1994), LA Farms(1994), Bennygans(1995), Tony Roma's(1995), Planet Hollywood(1995), Marche(1996), Hardlock Café(1996), Outback Steak House(1997), Chilis(1997).</li> </ol>
Early 2000's	\$10,000 - ?	<ol style="list-style-type: none"> <li>1. Incorporated food businesses lead the growth of the sector.</li> <li>2. Broadband distributors under development.</li> <li>3. A variety of new chain restaurant formats introduced, including take-out coffee shops (Starbucks), pasta restaurants, Vietnamese restaurants, Indian restaurants, beer and cocktail bars, micro-brew restaurants, lobster restaurants, sausage restaurants.</li> </ol>

\* GNP: Gross National Production (Per Capita)

\*\* As of 1996

Major source: Na, J.K., Understanding Food Service Industry, Baeksan Publishing Co., 1998

z Table 4 briefly summarizes the history of the development of the food service sector in Korea with the restaurant segment at the center of the scene. Traditionally the growth of restaurant segment has been mainly driven by an increase in the number of independent mom-and-pop restaurants serving

familiar Korean cuisine. However, the increase of the mom-and-pop restaurants has reached a near saturation, which is evidenced by the fact that the total number of food service businesses reached 570,576 in 2000, only 1% growth from 1999. As a result the segment has seen development and diversification of new formats in recent years under increasing pressure of competition. Especially, the diversification and development of new formats in restaurant segment are mainly driven by incorporated chain restaurant businesses. Chain restaurant business requires a significant capital investment and many conglomerates entered the market since mid 1990's when the government's entry restriction was lifted. Doosan, Shinsegae, Cheilchedang (CJ), LG, Samsung, Hyundai, Daesang and Daehan Sugar (TS) are some of those who started food service business in this period.

**Table 5 - Break down of Restaurant Segment by Type of Restaurant, 1998-2000**

Type of Restaurant	1998*	2000*	Growth
Korean Restaurants	235,625	245,122	4.0 %
Chinese Restaurants	25,359	27,104	6.9 %
Japanese Restaurants	3,053	6,255	100.49 %
Western Restaurants	13,389	15,192	13.5 %
Institutional Feeding Restaurants	610	1,367	124.1 %
Western Fast Food Restaurants	18,081	24,416	35.0 %
Korean Fast Food Restaurants	56,571	57,221	1.1 %
Drinking Places	115,044	123,512	7.4 %
Bakery Stores	16,035	11,770	- 26.6 %
Tea & Coffee Shops	44,584	43,386	- 2.7 %

\* Unit: Number of businesses

Source: Korea Bureau of Statistics 2002 Data

z Some of the 'hot' trends in restaurant segment include; Italian cuisine, Thai cuisine, French cuisine, Indian cuisine, Vietnamese cuisine, fusion foods, take-out restaurants including take-out coffee shops, premium coffee shops, beer and cocktail bars, micro-brews. Micro-brew restaurant was recently approved by the Korean government and the first micro-brew drinking place was open in Seoul July 2002.

z The significant decrease in the number of bakery stores shown in Table 5 reflects increasing competition among mom-and-pop stores.

**Table 6 - Profiles of Major Western Fast Food Restaurant Chains**

Year - 2001 Name of Company	Brand	Sales*	Number of Outlets	Outlets Newly Opened in 2001
Lotte	Lotteria	540 Billion	750	149
Shinmac & Mackim	McDonald's	286 Billion	321	77
Genesis	BBQ	270 Billion	1,400	80
Doosan	KFC	223 Billion	236	30
	Burger King	110 Billion	113	20
TS Haemaro	Popeye's	130 Billion	185	8
Sejin Food System	Hardies	21 Billion	25	2

\* Unit: Korean won

Source: Korea Food Distribution Yearbook 2002

z Westernization of dietary culture and consumers' ever busier lifestyle have fueled the rapid growth of fast food and family restaurant chains. Nine out of the top ten companies in the food service sector are fast food and family restaurant chains of imported brands. In general a significant portion of menus served at the Western style fast food and family restaurants are not genuine western dishes but are somewhat modified to incorporate traditional Korean tastes. Traditionally most Korean consumers are very familiar with hot chilly spices and soy sauce.

z The fast food segment is led by hamburger chains, followed by chicken, pizza and ice cream chains. Most of the major fast food chains are expanding rapidly by adding new outlets in major cities around the country. However, most chains are getting less profits over the years mainly due to on-going price competition. In addition, consumers are increasingly concerned with healthier foods which may be the reason for the slower sales growth of hamburgers and fried chickens. As a counter measure to overcome the obstacles, fast food chains are putting heavy emphasis in differentiating themselves from competitors by introducing new and healthier menus and hosting independent or joint promotional activities, in latter case mainly with non-food businesses such as telecommunication services and credit card companies.

**Table 7 - Profiles of Major Family Restaurant Chains**

Year - 2001 Name of Company	Brand	Sales*	Number of Outlets	Outlets Newly Opened in 2001
Food Star (Lotte)**	TGIF	75 Billion	19	2
Dongyang Confectionary	Bennygangs	55 Billion.	12	2
Amoje ***	Marche	43 Billion	10	3

Foodvill****	Sky Lark	35 Billion	22	1
	VIPS	24 Billion	8	5
Ojijung	Outback Steak House	35 Billion	16	8
Cocos Korea	Cocos	25 Billion	25	- 1
Sunat Food *****	Tony Romas	14 Billion	5	0
Barons International	Sizzler	10 Billion	3	0

\* Unit: Korean won

\*\* Lotte took over Food Star in 2002

\*\*\* Amoje is a new name of Dukwoo

\*\*\*\* Foodvill separated from CJ Food System in 2001

\*\*\*\*\* Sunat Food is a new name of Eo Corporation

Source: Korea Food Distribution Yearbook 2002

z Family restaurant chains are also expanding rapidly especially in markets outside of Seoul. This segment is putting a heavy emphasis on reducing operation cost, mainly through cutting the cost of labor and food. In order to achieve this, a few chains are considering central kitchen facilities. Continuous introduction of new menus targeting special holiday seasons has been another area of emphasis. Most of the major chains run in-house service academies and culinary schools for employee education.

**Table 8 - Company Profiles of Major Pizza Restaurant Chains**

Year - 2001 Name of Company	Brand	Sales*	Number of Outlets	Outlets Newly Opened in 2001
Pizza Hut Korea.	Pizza Hut	250 Billion	250	51
Mister Pizza Korea	Mister Pizza	10 Billion**	160	23
DPK International	Domino Pizza	60 Billion	161	12
Sejin Food System	Subaro Pizza	5 Billion	8	3
Pizza Consulting	Pizzajip.com	19 Billion	170	- 124

\* Unit: Korean won

\*\* Sales from 15 directly owned outlets

Source: Korea Food Distribution Yearbook 2002

z Opening of new outlets by major pizza chains continues. At the same time, new toppings and breads are introduced on a regular basis.

z Delivery market is where the major growth of the segment is taking place. For example, the market

leader, Pizza Hut, is getting 70% of its sales from delivery market.

### 3. Institutional Restaurant Food Service Segment

**Table 9 - Profiles of Major Institutional Restaurant Food Service Companies**

Year - 2001 Name of Company	Established Year	Sales Revenue *	No. of Outlets	No. of Meals Serving Daily
Our Home (LG)	1989	290 Billion	380	500,000
Everland (Samsung)	1994	285 Billion	360	450,000
CJ Food System	1994	180 Billion	550	420,000
G-Net (Hyundai)	2000	130 Billion	132	180,000
Shinsegae Food System	1993	73 Billion	204	150,000
Arakor	1991	60 Billion	230	230,000
ECMD	1991	78 Billion	184	163,000
Hanwha Development	1994	80 Billion	180	150,000
Dongwon Homefood**	2001	20 Billion	57	40,000

\* Unit: Korean won

\*\* Dongwon Homefood took over 63 City's institutional feeding business in 2001

Source: Korea Food Year Book 2002

Commercial institutional feeding food service business was first introduced into Korea in the late 1980's through the 1986 Asian Games and the 1988 Olympic Games. There are now about 250 companies competing in this segment. However, most of the companies are small in size and only about 50 are registered as incorporated businesses. The market for commercial institutional restaurant segment has shown a double digit growth since its commence and reached 1.95 trillion won in 2001, 21.5% up from 2000. The segment is mainly led by a few major companies as evidenced by the fact that the top five companies of the segment comprise about 49% of market share.

Traditionally lunch is a part of the compensation provided to employees in Korea and many organizations, especially manufacturers, run their own not-for-profit restaurants to prepare meals for their employees. Many Korean conglomerates started operating their own institutional feeding businesses in the early 1990's to standardize the feeding system across different companies and operation units under their arm. However the internal market was soon saturated and they started to expand into the outside commercial market in the mid 1990's. The biggest market for commercial institutional restaurant food service has been manufacturers but school and hospital markets are growing rapidly. The government's on-going program to adopt a commercial institutional feeding service in all schools under college level within a few years from now offers the segment an important growth opportunity.



z Most of the leading institutional feeding companies have diversified into regular restaurant businesses, including food courts, cafeterias, cocktail bars, coffee shops, bakery and franchise restaurant chains. Our Home, CJ Food System and Everland have also started broad band distribution businesses in recent years, which may bring about a significant change in the way family-owned restaurants and small chain restaurants procure food products in the future.

z The cost of food materials comprises about 60% of the total cost of operation for a commercial institutional feeding business, which is much higher than that of a regular restaurant business (about 30%). Consequently, companies in this segment are vigorously seeking ways to reduce the cost of food materials. Exclusion of intermediaries in the supply chain through direct purchasing/import and B2B, realization of the economy of scale through M&A and strategic alliance in procurement, improvement of operation efficiency through introduction of information technology are three major approaches that the segment is taking currently. For example, two major companies in this segment, Pulmuwon and CMD, merged in July 2000. Foodmerce Co., Ltd., a joint cooperative procurement entity co-founded by several food service businesses, launched in May 2000. In addition, most major companies in the segment have made heavy investment in developing a information network between the headquarters and each outlet in that the demand for food materials in each outlet is pre-planned according to the menu selected by the outlet and summed into a unified procurement plan at headquarters.

z Increasing labor costs and the difficulty of maintaining an experienced labor force in hundreds of outlets have led most major companies in the segment to seek more prepared food materials which can be served with minimal input of time, labor and skills in preparation and cooking at an individual outlet. The concept of a central kitchen is also spreading.

z Shinsegae Food System Co. and CJ Food System Co. are now publically traded companies.

### **III. Competition**

z The primary competition for U.S. suppliers are their domestic Korean counterparts. Korea is self-sufficient in rice, most fresh vegetables and fruits, some seafood, and most pork and chicken. In addition, Korea is equipped with a strong manufacturing force for processed foods, which supplies ample amount of processed meat and fish products, sauces and spices, edible oils, flours, and other products for food service usages. However, increasing price of local products along with a surging demand for new-to-market products have opened the door for increased imports. In addition, on-going lifting of import barriers (mainly tariffs and regulations against open competition) for many agricultural products resulting from international trade negotiations also promises new opportunities for imports.

z Procurement decisions in the food service sector are often driven by price factor alone and many Korean procurement managers often overlook the overall benefits of using high quality products. Australia and China have aggressively expanded their shares in the beef and seafood market respectively, mainly based on strong price competitiveness over U.S. products. In addition, all international competitors are putting heavy resources in various promotional activities and financial



support to their exporters, which makes the limited marketing efforts made by U.S. products comparatively insignificant.

ž Korean consumers are suspicious about the safety and nutritional value of imported foods in general including U.S. products. Local consumers tend to pay a lot of attention to reports on food poisoning incidents in the U.S., especially, the recent debate on the safety of GMO products. As a result, local consumer's perception of the safety of U.S. products has deteriorated. Recently several family restaurants were forced by Korean NGOs to declare that they would not use any GM products in their menus. Pulmuwon, a major food processor, also declared that they would not use any GM ingredients in their foods.

ž China has become and is expected to remain a leading supplier of various agricultural, livestock and fishery products to the food service sector due to lower price and advantages from its geological location. However, the U.S. is expected to gain a greater share in high value products as the food service operators gain better understanding over years about the value of using high quality value-added products. At the same time, Korean consumer's increasing expectations concerning the quality and safety of foods served in restaurants will gradually boost the demand for high value products.

#### **IV. Best Product Prospects**

##### **A. Products Present in the Market Which Have Good Sales Potential**

###### **1. Beef and Pork**

Since import liberalization in early 2001, imported beef has become more familiar to local customers due to open competition in import and distribution channels. However beef consumption in general from mid 2001 to mid 2002 was hit seriously by the "Mad Cow Disease" reports from the U.K. and "Foot & Mouth Disease" outbreaks in Korea. The market has since recovered. Although Australia and New Zealand have become tough competitors in the food service sector with their price competitive grass fed, carcass beef, US beef is leading the imported beef market in general with 65.7% of market share (\$303 million by value) in 2001. Food service operators have gradually gained a better understanding of the benefit of using quality grain-fed, box packaged US beef for higher consumer satisfaction on taste and easier handling during preparation and cooking. Since the shelf-life for vacuum-packed chilled beef definition by the Korean government was changed to "manufacturer determined shelf life" as of June 1998, substantial growth of the chilled beef imports from U.S. has been made. In addition, Korean government allowed freezing of chilled beef before expiration date and selling it as frozen beef with extended shelf life, which has given more flexibility to importers and distributors. Introduction of premium grade US beef in retail channel coupled with price promotion started on August 2000 and has helped local consumers and food service trades better understand the quality of U.S. beef. Although facing tough competition from both domestic and international suppliers, the pork market also has a good potential for U.S. suppliers especially in fresh belly meat.

###### **2. Poultry**

Korea is an excellent market for poultry products with a strong demand from the food service sector. The U.S. market share of imported poultry meat is 48% at \$48 million in 2001. However, U.S.

suppliers are facing fierce competition from low-price products especially from China and Thailand. On May 2000, China was lifted from the import ban on poultry and poultry products imposed in 1997 due to the Hong Kong Avian Influenza outbreak. In addition, tough sanitary inspection standards set by the Korean government make it difficult for fresh poultry meat to penetrate into the market (zero tolerance level on E-coli contamination). Demand for turkey meat is expected to rise sharply in coming years as consumers have strong interest in a low fat diet. The market also has a good potential for value-added, prepared poultry products.

### **3. Seafood**

Korea is a huge seafood market with great potential. The domestic fleet and catch are decreasing mainly due to the depletion of near water fishery resources and increased international restrictions on deep sea fishing. Contamination of near water seas has also reduced the local fishery supply. Total imports of fishery products by Korea amounted to \$1.5 billion in 2001, up more than 200% from \$499 million in 1998. Imports from U.S. also increased to \$147 million in 2001, up 90% from 1998. Currently five star hotels have a steady demand on halibut, crab (king, snow and Dungeness), scallop and black cod imported from U.S. Although holding high market shares in several species, including frozen Surimi, frozen Angler and Roes of Alaska pollack, the U.S. is facing fierce competition from as many as 70 countries in the market. In addition, increasing restriction on fishing in U.S. seas is increasing the price of U.S. products. For example, wild-caught Alaskan salmon is losing competition against cheaper alternatives from Norway and Russian.

### **4. Processed Fruits (dried, preserved, processed)**

Fruit-based products are gaining consumer popularity for their natural, healthy image, array of flavors, high quality, and convenience. With the increased consumption of such products and limited production capacity, Korea depends heavily on imported processed fruits to meet its needs in processing and food service sector. Korea's imports of processed fruits increased by 23.7% to \$14.5 million in 2001 from the previous year while the U.S. supply reached \$1.6 million in 2001, up sharply from \$0.8 million in 2000. The U.S. is the major supplier of high quality frozen strawberries, cherries and blueberries.

### **5. Fresh Fruits**

Korea is an excellent market for U.S. oranges. The U.S. was the sole supplier of oranges to Korea until August 1999 when South Africa was first allowed to export to Korea. Fruit imports from U.S. increased by 9.9% to reach \$86 million in 2001 from the previous year. Oranges accounted for 94% of the total fruit imports from the U.S. The total imports of fresh fruits increased by 12.7% to \$190 million in 2001 from the previous year. Other major fruits imported into Korea include bananas (mainly from Philippines and Ecuador), table grapes (mainly Chile), pineapples (all Philippines), kiwi fruits (mainly New Zealand), lemons (mainly U.S.), grapefruits (U.S.) and cherries (mainly U.S. and New Zealand).

### **6. Vegetables (fresh, dried, chilled, frozen)**

Korea is self-sufficient for a variety of vegetables including Chinese cabbage, radish, carrot, cucumber, egg plant, spinach, and peppers. However, China has emerged as a dominating exporter of a variety of dried and processed vegetables, including garlic, onions, mushrooms, bellflower root and frozen pre-cut vegetables, to Korea backed by its strong price competitiveness. Out of \$151 million of total vegetable

imports in 2001, U.S. took only 3.3% of market share, most of which was frozen potato products. Although the market for U.S. vegetables is currently very small, there are good opportunities for processed or frozen products. The supplies of local vegetables are often disrupted in summer months due to intermittent periods of dry weather or heavy rains as well as in cold winter. As a result, local restaurant chains are seeking ways to secure a stable supply of vegetables without price and volume fluctuations year round. In addition, development of large chain restaurant businesses has been interpreted into growing demand for food materials that can reduce labor and overhead costs. One thing to note: currently Korean government requires fumigation treatment of methyl bromide to all imported fresh vegetables, which causes serious damage to the quality of fresh vegetables. Once the fumigation issue is resolved, there will be a greater potential for fresh vegetables imports. Major vegetables currently being imported include potatoes, onions, leeks, garlic, carrots, cabbage, lettuce, turnips, and beetroot.

## **7. Dairy Products**

With the on-going westernization of dietary culture, the food service sector is a good opportunity for U.S. suppliers in cheese, ice cream, whey and other dairy products. Out of \$159 million of total dairy product imports in 2001, US took 16.6% of share at \$26.5 million. Most competition comes from Denmark, Canada, New Zealand and Australia.

## **8. Alcoholic Beverages : Wine, Hard Liquors and Beer**

Korea is well known as one of the leading markets for alcoholic beverage consumption. While traditional rice wine consumption is decreasing, western products are dominating the market. During the economic crisis in 1998, all major local alcoholic beverage businesses were taken over by international brewers and distillers, leaving the market wide open to direct international competition. Whisky, beer and wine are important items for the food service sector. Wine imports set a new record high in 2001 at \$23 million with U.S. the second largest supplier at \$5.7 million.

## **9. Coffee, Tea, and Spices**

The growth of the food service sector has lead to a growth in imports of coffee, tea and spices. In 2001, Korea imported \$72 million of coffee, \$1.5 million of tea and \$3.5 million of a variety of spices. Especially, opening of take-out coffee shops has been explosive in recent years, which caused a sudden leap of coffee bean imports. Major spices currently being imported include; dried pepper, vanilla, cinnamon, cloves, nutmet, mace, cardamon, anise, fennel, coriand, ginger, saffron, turmeric, and thyme.

## **B. Products Not Present in Significant Quantities But Which Have Good Sales Potential**

Ethnic spices and sauces, prepared foods, organic fruits and vegetables, certain vegetables and fruits that are not locally available (e.g., asparagus and mangos).

## **C. Products Not Present Because They Face Significant Barriers**

Currently, apples are import banned for sanitary reasons. Many products, including Rice, honey, and pop-corn, are subject to quoter import barriers. Fresh vegetable imports are subject to methyl-bromide fumigation, which causes a serious damage to the quality of products.

## **V. Post Contact**

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